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C O N F I D E N T I A L SECTION 01 OF 02 JEDDAH 000452

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FOR MATTINGLY; PARIS FOR ZEYA; LONDON FOR TSOU

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SUBJECT: NEW SAUDIA DIRECTOR GENERAL EXPOUNDS ON FUTURE OF  
AIRLINE

Classified By: Consul General Tatiana Gfoeller, for  
reasons 1.4 (b) and (d).

¶1. This is one of a series of cables relating to the civil  
aviation sector in the Kingdom of Saudi Arabia.

¶2. SUMMARY: On June 25, Pol/Econ Chief and Jeddah  
Commercial Officer met the newly appointed Director General  
of Saudi Arabia Airlines (Saudia), Khalid Almolhem. He had  
earlier presided over the privatization of Saudi Telecom. He  
is guardedly optimistic about the future of Saudia, although  
he had reservations about meeting the current schedule for  
privatizing the company by the end of this year. Current  
plans are to divest the airline of catering, cargo and  
maintenance services. Among the problems facing Saudia's  
operations as a private carrier is a skewed passenger demand  
which taxes personnel and equipment and outdated facilities  
at King Abdulaziz International Airport in Jeddah, which are  
not well-suited to act as an air service hub. Almolhem is  
interested in exploring code-sharing agreements with U.S  
carriers. He voiced dissatisfaction with the service  
provided by Boeing to Saudia in recent years. END SUMMARY.

NEW DIRECTOR GENERAL OF SAUDIA

¶3. (C) On June 25, Jeddah Pol/Econ Chief and Commercial  
Officer met with Khalid Abdullah Almolhem. Almolhem was  
appointed Director General of Saudi Arabian Airlines (Saudia)  
earlier in the month. Almolhem, had been, until February of  
this year, the Director of Saudi Telecom and had presided  
over the privatization of that enterprise. His success at  
Saudi Telecom is thought to have been a primary reason for  
his appointment to Saudia. It is also rumored that his  
reputation for integrity and honesty were important factors,  
in contrast to the suspicions that swirled around the  
previous Director General.

¶4. (C) Almolhem met Consulate officers in his office at the  
Saudia Headquarters in the Khaldya Section of north Jeddah.  
Almolhem appeared to be in his late fifties and was cordial  
throughout the meeting. He exhibited a pragmatic attitude  
and advocated continued reform and opening of the Saudi  
economy and society. He expressed the belief that a  
continued close relationship with the U.S. was essential for  
Saudi Arabia's development.

IMPENDING PRIVATIZATION WILL BE A CHALLENGE, BUT IS ESSENTIAL

15. (C) Having been at the helm of Saudia for less than two weeks, Almolhem confessed that he was still learning the details of the job. Overall he was optimistic about the Saudi economy and the plan to privatize Saudia. However he was rather less sanguine about the recently announced time-table to privatize Saudia by the end of the year. He told officers that privatization was essential, but noted that it would be something of a challenge to divest the airline of non-core components, excess staff, initiate management changes and create the conditions for a private business in that short time frame.

#### CATERING, CARGO, AND MAINTENANCE TO BE SPUN OFF

16. (C) His immediate goals were to separate the catering, cargo services, and maintenance components of the airline into independent, private operations. His most recent annual figures were that the catering services generated revenues of SR 800 million, the cargo services SR 4.5 billion, and maintenance SR 5 billion. Saudia planned to give each of these companies an exclusive contract to provide services for Saudia, but they would have to compete for contracts with other private companies for additional revenue. He estimated that divesting the airline of these segments would reduce its work force by approximately half.

#### COMPETITION IS TO BE EXPECTED, BUT ORGANIZATION AND INFRASTRUCTURE PRESENT CHALLENGES TO SAUDIA

17. (C) Almolhem was not overly concerned about the competition from the several start-up airlines that have begun or soon will begin competing with Saudia on domestic routes. In discussing Saudia's ability to compete as a private airline, he observed that it was inevitable. He felt

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there was no possibility of a non-private airline competing in the modern international environment. He lamented that competition had been blocked for so long. He observed that it would have been easier to become competitive earlier than it is in today's global airline sector. He readily admitted that a number of obstacles pose problems for Saudia's operations.

#### UNIQUE PASSENGER PATTERNS CONFRONT SAUDIA

18. (C) Among the obstacles confronting Saudia identified by Almolhem was the unique passenger demand that was both an asset and a liability. Almolhem noted Saudis who are able, leave the Kingdom in droves during the searing summer months. Additionally, religious pilgrims traveling on umrah pilgrimage, during Ramadan and the Haj, all place an extraordinary burden on Saudi transportation producing a very skewed pattern of usage. This is compounded at the present time when all of these events succeed each other in quick succession. Consequently, rather than a relatively level, year-round demand, Saudia will face peak demands for service between now and the end of Haj early in the new year with little respite. Almolhem admitted that this would severely tax the airline's personnel and equipment during the coming months (and, not incidentally, complicate the process of divesting itself of its non-core units.). The beneficial facet of these circumstances, is that the airline will be generating maximum revenues during the remainder of the year.

#### AIRPORT INFRASTRUCTURE MUST BE IMPROVED

19. (C) Another obstacle to the long-term viability of Saudia's operations was that Jeddah's King Abdulaziz International Airport was old and lacked the infrastructure to operate efficiently as a Hub airport for Saudia. He was optimistic that when the recently inaugurated airport renovation is completed in a year or two, Saudia will be much better able to develop a domestic and international hub system of operations.

## CODE-SHARING ESSENTIAL FOR SUCCESS

¶10. (C) When asked about the prospect for establishing "code-sharing" arrangements with American airlines. He immediately said this would be vital. "No airline," he observed, "could operate effectively today without code-sharing," and he was eager to explore these arrangements with foreign and American carriers. Evidence confirms their pursuit of this policy. Over the last few days, Saudi newspapers have announced that Saudia has entered into a code-sharing arrangement with Cyprus Airlines and an "interline agreement" with Libyan-based Afriqiyah Airways.

BOEING ATTRACTIVE, BUT IT WILL HAVE TO MAKE AN EFFORT

¶11. (C) Commercial Officer queried Almolhem about his views regarding Boeing, which has been contesting Airbus sales in the region with only mixed success. He readily expressed an admiration for Boeing, but was cautious about its future relationship with Saudia. He said that Boeing would have to give more if its relationship with Saudia was to flourish. He said he "wished someone would tell Boeing that they would have to give them more support and particularly be more helpful in providing needed spare parts." Commercial Officer agreed to forward this message to Boeing.

¶12. (C) COMMENT: Almolhem impressed officers as an experienced, pragmatic and forward-looking manager. He was responsible for one of the largest and most successful privatizations yet completed in Saudi Arabia. By all indications he has the confidence of the King in undertaking this next critical step in Saudi economic development. He explicitly described the U.S.-Saudi relationship as important to both parties. He also expressed a desire to maintain contact with the Consulate General. Almolhem is not yet well-known to the Mission; he said he had met the Ambassador briefly, and it would seem useful if relations between Almolhem and the Mission could be strengthened in coming months. His comments concerning code-sharing suggest that interested American airlines should approach Saudia representatives to explore this issue. END COMMENT.  
Gfoeller